

Message Text

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11/73
ORIGIN SS-15

INFO OCT-01 NEA-10 ISO-00 XMB-02 EB-07 L-03 PM-04 NSC-05

SP-02 OES-03 CIAE-00 INR-07 NSAE-00 SSO-00 NSCE-00

INRE-00 /059 R

66624
DRAFTED BY:E:RASORENSEN
APPROVED BY:E:RASORENSEN
S/S - FVORTIZ
NEA/AFN:WWEISLOGEL
EXIM:TMORAN (BY PHONE)
----- 113949

O 262343Z AUG 75
FM SECSTATE WASHDC
TO AMEMBASSY ALGIERS IMMEDIATE

C O N F I D E N T I A L STATE 203496

C O R R E C T E D COPY (REF: ALGIERS 1830 VICE 5745; LINE
16 PARA 5)

E.O. 11652: GDS

TAGS: PFOR, ENRG, AG, US

SUBJECT: CHEMICO CONTRACT

REF: ALGIERS 1830

FOR AMBASSADOR FROM UNDER SECRETARY ROBINSON

1. OVER PAST COUPLE OF WEEKS I HAVE CONDUCTED EXTENSIVE
REVIEW OF PROBLEM ASSOCIATED WITH CHEMICO CONTRACT,
INCLUDING CALLS TO BILL CASEY OF EXIM AND J. H. VOLLBRECHT,
PRESIDENT OF AEROJET-GENERAL IN LOS ANGELES. THIS HAS
BEEN FOLLOWED BY DETAILED DISCUSSIONS BETWEEN MY OFFICE
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AND EXIM AND WITH JOHN NICHOLS, EXECUTIVE VICE PRESIDENT
OF AEROJET. IN ADDITION, DAVID BEIM, EXECUTIVE VICE
PRESIDENT OF EXIM HAS CALLED M. G. O'NEIL, PRESIDENT
OF GENERAL TIRE, THE PARENT ORGANIZATION, TO EXPRESS
CONCERN AND THE HOPE THAT THIS PROBLEM COULD BE RESOLVED.

2. AEROJET, NOT SURPRISINGLY, HAS ITS OWN STORY TO TELL ABOUT THE DIFFICULTY OF DOING BUSINESS IN ALGERIA. (MEMCON BEING AIR POUCHED) IT WOULD BE COUNTERPRODUCTIVE, HOWEVER, TO GET INTO A DISCUSSION OF WHO HIT WHOM AND IT SEEMS TO US THAT THE BEST ROLE WE CAN PLAY NOW IS TO TRY TO GET BOTH PARTIES INTO A CONSTRUCTIVE DISCUSSION OF WHERE THEY GO FROM HERE, RECOGNIZING THAT EXISTING CONTRACTUAL ARRANGEMENTS APPEAR UNWORKABLE.

3. IN OUR DISCUSSIONS WITH AEROJET, THE FOLLOWING POINTS EMERGED: (1) IT IS THE INTENTION OF CHEMICO TO FINISH THE CONTRACT; (2) THEY WILL FORFEIT THEIR PROFIT (\$24 MILLION), BUT THEY WILL NOT, REPEAT NOT, PUT ANY MORE OF THEIR OWN MONEY INTO IT; (3) IF SONATRACH WANTS TO BRING IN ANOTHER CONTRACTOR TO FINISH THE JOB, CHEMICO WILL ASSIST WITH THE TRANSFER, SO LONG AS THE COMPANY IS MADE WHOLE FINANCIALLY; (4) IF THEY STAY, HOWEVER, THEIR UNALTERABLE POSITION IS THAT NEW TERMS MUST BE ARRANGED; AND (5) THEY WILL GO TO ARBITRATION BEFORE THEY CHANGE THEIR MIND.

4. WE EXAMINED EACH OF THE FOREGOING POINTS IN SOME DETAIL AND IT IS OUR OPINION THAT AEROJET IS UNLIKELY TO CHANGE ITS POSITION. EXIM OFFICIALS ACQUAINTED WITH THE PROBLEM EXPRESS THE SAME CONVICTION. THEREFORE, IT SEEMS TO US THAT THE FIRST PROBLEM IS TO CONVINCE THE ALGERIANS (1) THAT WE IN GOVERNMENT HAVE DONE ALL WE CAN WITHIN THE LIMITS OF OUR SYSTEM TO FIND A SOLUTION, AND (2) THAT SONATRACH MUST DECIDE WHETHER IT WILL WORK WITH CHEMICO ON THE BASIS OF PARAGRAPH 3 ABOVE. THIS IS TO SAY THAT THE WORST OUTCOME OF THIS ENTIRE PROBLEM WOULD BE FOR SONATRACH TO MISREAD CHEMICO'S INTENTIONS, OR MISTAKENLY BELIEVE THAT THEY CAN SUCCESSFULLY LEAN ON CHEMICO THROUGH US. THE REAL DANGER IS THAT CHEMICO WILL STOP WORK ENTIRELY, AND THIS WILL HAPPEN IF CHEMICO'S IMMEDIATE CASH-FLOW PROBLEM CANNOT BE SOLVED. CONFIDENTIAL

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5. TURNING TO THE FINANCIAL ASPECTS OF THIS MATTER, THERE ARE TWO PROBLEMS--ONE IMMEDIATE AND THE SECOND SOMEWHAT LONGER TERM. THE IMMEDIATE PROBLEM, AS JUST INDICATED, IS CHEMICO'S CASH-FLOW, WHICH, IF NOT DEALT WITH, WILL CAUSE THEM TO STOP WORK. ABOUT 10 DAYS AGO NICHOLS OF AEROJECT ADVISED THE EXIM THAT CHEMICO IS HAVING TO SPEND FOR SUB-CONTRACTORS FASTER THAN THEY ARE RECEIVING AND THAT THEY WILL NO LONGER CONTINUE TO DO SO. THEY HAVE PROPOSED, AS AN INTERIM SOLUTION, THAT CERTAIN PAYMENTS TO BE MADE UNDER A LETTER OF CREDIT BE DRAWN DOWN AT AN ACCELERATED PACE. NICHOLS TOLD US THAT A LETTER TO THIS EFFECT HAS BEEN SENT TO GHOZALI, AND THAT HE (NICHOLS) REGARDS HOW SONATRACH HANDLES THIS AS A "CHECKMARK" OF THEIR INTENTIONS. THE EXIM INFORMS US

THAT PAYMENTS CANNOT BE ACCELERATED WITHOUT THEIR
AGREEMENT AND THAT, BEFORE THEY CAN MAKE A DECISION, THEY
MUST FIRST RECEIVE A FORMAL REQUEST FROM SONATRACH, WHICH
THEY HAVE NOT YET RECEIVED.

6. THIS MATTER APPEARS AT A MOMENTARY IMPASSE, AND WE
UNDERSTAND THAT NICHOLS IS FLYING TO ALGIERS TONIGHT FOR

MEETINGS WEDNESDAY ON THIS QUESTION. OUR BELIEF IS THAT,
IF IT IS NOT SOLVED, CHEMICO WILL STOP WORK. THEREFORE,
THE IMMEDIATE PROBLEM IS TO CONVINCE THE ALGERIANS THAT
A CRUCIAL DECISION IS IMMINENT.

7. THE SOMEWHAT LONGER TERM FINANCIAL PROBLEM IS, OF
COURSE, FUNDING THE OVER-RUN OF \$70 MILLION. WE HAVE
DISCUSSED THIS MATTER WITH THE BANK AND WILL CONTINUE
TO DO SO. IT SEEMS THAT EXIM'S POSITION IS THAT IT WILL
NOT BE ABLE TO MAKE A DECISION ON THIS QUESTION UNTIL
BOTH CHEMICO AND SONATRACH HAVE AGREED ON THE AMOUNT OF
THE OVER-RUN AND ITS COMPOSITION. CLEARLY, THIS IN TURN
WILL DEPEND ON THE OUTCOME OF THE AUDIT. IT WOULD,
THEREFORE, APPEAR THAT WE MUST CONVINCE THE ALGERIANS
THAT ANY DELAY IN EXIM'S RESPONSE TO THEIR REQUEST ON
THIS MATTE
DEPENDS UPON COMPLETING THE AUDIT AND
GETTING AN AGREED CHEMICO-SONATRACH ESTIMATE BEFORE THE
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BANK SO THAT A DECISION CAN BE REACHED.

8. I REALIZE THAT MUCH OF THE FOREGOING WILL NOT STRIKE
THE ALGERIANS AS HAVING BEEN HELPFUL, AND I ESPECIALLY
APPRECIATE THE THOUGHTFUL, SENSITIVE ROLE THAT YOU
HAVE PERSONALLY PLAYED IN TRYING TO FIND A SOLUTION.
HAVING GONE INTO THIS, AND CONSIDERING THE CONSTRAINTS
UNDER WHICH WE OPERATE, THE ONLY THING WE CAN DO NOW IS
SEEK THE BEST OUTCOME POSSIBLE BY LAYING THE FACTS BEFORE
THEM. YOU MAY ASSURE THEM THAT I WILL CONTINUE
PERSONALLY TO FOLLOW THIS PROBLEM AND I WOULD BE GRATEFUL
IF YOU WOULD REPORT TO ME THE OUTCOME OF YOUR FURTHER
CONVERSATIONS WITH THEM.

9. ON THE QUESTION OF EXIM POLICY GENERALLY TOWARD
ALGERIA, I AM INFORMED THAT THE BANK HAS JUST COMPLETED
A STUDY WHICH HAS BEEN PUCHED TO YOU. OFFICIALS AT THE
BANK HAVE NOTED TO ME THAT THEIR EXPOSURE IS VERY HIGH
AND THAT THEY MUST TAKE INTO ACCOUNT OVERALL DEMAND ON
THEIR RESOURCES. WITHIN THESE CONSTRAINTS THEY WILL
CONTINUE TO LOOK AT EACH LOAN APPLICATION ON THE BASIS
OF ITS MERITS. THE BANK IS PREPARING A SEPARATE CABLE
ON THIS SUBJECT FOR YOUR GUIDANCE. INGERSOLL

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<< END OF DOCUMENT >>

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, NATURAL GAS, FOREIGN RELATIONS, CONTRACTS, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE203496
Document Source: ADS
Document Unique ID: 00
Drafter:
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D750297-1106
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197508102/baaaatfa.tel
Line Count: 164
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 29 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 JUL 2003 by KelleyW0>; APPROVED <26 NOV 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: PFOR, ENRG, AG, US, CHEMICO
To: ALGIERS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006